

Message Text

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ACTION OES-07

INFO OCT-01 EA-07 ISO-00 ACDA-07 AGRE-00 AID-05 CEA-01

CEQ-01 CG-00 CIAE-00 EPG-02 DLOS-09 DODE-00

DOT-00 EB-07 EPA-01 ERDA-05 FMC-01 TRSE-00 H-01

INR-07 INT-05 IO-13 JUSE-00 L-03 NSAE-00 NSC-05

NSF-01 OMB-01 PA-01 PM-04 PRS-01 SP-02 SS-15

USIA-06 FEA-01 EUR-12 /132 W

-----100221Z 105890 /72

P R 100055Z MAY 77

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 3774

USDOC PRIORITY

INFO AMEMBASSY TOKYO

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EO 11652: N/A

TAGS: EFIS UR JA KS

SUBJ: POLITICO ECONOMICS OF KOREAN ALASKA POLLOCK PURCHASE
VENTURE

REF: STATE 86522

BEGIN SUMMARY: UNCLASSIFIED. BY A 6 TO2 VOTE ON APRIL 29,
THE NORTH PACIFIC REGIONAL FISHERIES COUNCIL HAS RECOMMENDED
DISAPPROVAL OF THE RECENT CONTRACT BETWEEN KOREA MARINE INDUSTRY
DEVELOPMENT CORP. (KMIDC) AND R.A. DAVENNY AND ASSOCIATES, INC.
OF ANCHORAGE, ALASKA. HOWEVER, IF THE INFORMATION PRESENTED TO
EMBOFFS IS CORRECT, DENIAL OF THE REQUESTED LICENSES MIGHT BE
INCONSISTENT WITH THE PURPOSES OF THE FISHERY CONSERVATION AND
MANAGEMENT ACT BECAUSE IT CONTRAVENES THE BEST INTERESTS OF
ALASKAN FISHERMEN AND, IN ADDITION, WOULD IMPACT UPON KOREAN
NUTRITIONAL NEEDS.

END SUMMARY. END UNCLASSIFIED

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1. BEGIN (LOU). EMBOFF WAS URGENTLY CONTACTED APRIL 30 BY SHIM
SANG JOON, CHAIRMAN, KOREA MARINE INDUSTRY DEVELOPMENT CORP.
(KMIDC), WHO HAD ONLY RECENTLY RETURNED FROM A MONTH IN ALASKA
SETTING UP THE ALASKA POLLOCK PURCHASE AGREEMENT DESCRIBED REFTELS.
IN BAREST DETAIL, THE IDEA FOR THE AGREEMENT AROSE FROM SENATOR
STEVENS' STAFF AND THE STATE GOVERNMENT OF ALASKA WHICH WISHED
TO FIND EMPLOYMENT FOR 30 LAID UP U.S. SHRIMP BOATS IN KODIAK.

SHIM REALIZED THAT ALTHOUGH THE BOATS ARE SMALL, THEY COULD, WITH TRAINING AND PROPER TRAWLING GEAR, BECOME CAPABLE OF CATCHING ALASKA POLLOCK. R.A. DAVENNY WAS RECOMMENDED BY THE GOVERNOR'S OFFICE AS CAPABLE OF LINING UP THE INDEPENDENT AMERICAN OWNERS OF THE SHRIMP BOATS AND HANDLING THEIR ENTRY INTO THE POLLOCK FISHERY. 130,000 TONS WAS DECIDED AS THE MINIMAL AMOUNT THOSE VESSELS WOULD SUPPLY ANNUALLY, PROVIDED THAT KMIDC COULD BUY AND STATION TRANSPORT VESSELS AS CLOSE AS POSSIBLE TO THE AMERICAN CATCH BOATS TO TRANSFER FISH IN CONSONANCE WITH THEIR LIMITED HOLDS AND RATE OF CATCH. A NOTARIZED LETTER OF INTENT IN DETAIL WAS SIGNED ON FEBRUARY 18, 1977, WITH THE BLESSING OF THE ALASKAN STATE GOVERNMENT AND THE HONARARY ROK CONSUL AT ANCHORAGE AND REFTTEL LETTER WAS DISPATCHED TO DEPARTMENT.

2. SIMULTANEOUSLY, KOREAN BANKS AND ROKG OFFICIALS CHARGED WITH FENDING OFF THE TOTAL COLLAPSE OF KOREA WONYANG, WHICH IS IN RECEIVERSHIP BY VIRTURE OF THE ARREST OF LEE HAK-SOO, HIT UPON THE EXPEDIENT OF EXCUSING KMIDC, AS NECESSARY, FROM FOREIGN EXCHANGE RULES, AND, INASMUCH AS THE ROKG ALREADY STANDS AS GUARANTOR FOR KMIDC'S VESSELS, FORCING SHIM TO TAKE OVER THE YUSHIN HO AS THE MAIN FREEZER VESSEL TO RECEIVE POLLACK TO BE CAUGHT BY DAVENNY ASSOCIATES. IT WILL NOT REPEAT NOT "PROCESS" THE US POLLOCK, BUT MERELY FREEZE IT IN THE ROUND FOR SHIPMENT TO THE KOREAN MARKET. SHIM CONDITIONED HIS ACCEPTANCE OF YUSHIN HO ON RECEIVING EXCLUSIVE RIGHTS TO DEAL IN US POLLOCK. HE RECEIVED THAT ASSURANCE FROM THE ROKG, AND USG MAY BE SURE THAT NO OTHER APPLICATIONS FROM ROKG ON BEHALF OF RIVAL FIRMS FOR SIMILAR VENTURES WILL BE RECEIVED.

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3. NEVERTHELESS, THE NEW ENGLAND FISHERIES CO. (NEFCO), A SEATTLE FIRM WITH A FISH PROCESSING PLANT IN KODIAK, HAS ANNOUNCED ITS INTENTION TO PROCESS ALASKA POLLACK INTO FISHBLOCKS. ALLEGEDLY, KOREA WONYANG AND DAELIM FISHERIES HAVE ENCOURAGED NEFCO ALTHOUGH NEITHER IS BELIEVED TO HAVE BEEN INFORMED OF, OR LIKELY TO RECOGNIZE THE DEPTH OF THE ROKG'S COMMITMENT TO KMIDC. OBJECTIVELY CONSIDERED, IT IS MUCH MORE RATIONAL FOR THE ROKG TO GIVE ADJUSTMENT ASSISTANCE TO OTHER FINANCIALLY TROUBLED KOREAN FIRMS THAN TO FACE THE PROSPECT OF HAVING VIRTUALLY THE ENTIRE KMIDC FLEET AND PERSONNEL DUMPED AT ITS DOORSTEP.

4. EMBOFF NOTED THAT IT COULD BE ARGUED THAT KMIDC WOULD BUY POLLOCK FOR KOREAN PROCESSING AND EXPORT TO THE US, AND THEREFORE, IT WOULD BE COMPETING WITH THE NEFCO STARTUP IN KODIAK. SHIM REPLIED THAT NEFCO HAS SAID IT WOULD PROCESS POLLACK, BUT IT WILL NOT AND INDEED CANNOT ECONOMICALLY DO SO. HE OFFERED THE FOLLOWING ANALYSIS: (A) THE EX-VESSEL AT SEA PRICE OF A TON OF POLLOCK WILL BE \$82 IN JUNE SOLD FROM SOVIET VESSELS (TO JAPANESE), AND \$74 FROM JAPANESE CATCH BOATS TO TRADING FIRM MOTHER SHIPS; (B) THE US

ZONE BASE CALCULATION FOR ASSESSING FEES IS \$98; (C) KMIDC SIGNED THE CONTRACT WITH DAVENNY AT \$143 PER TON BECAUSE IT CAN LAND ROUND FISH IN KOREA WHERE DEMAND IS \$350 A TON; (IT SHOULD BE NOTED THAT FISH IS A PROHIBITED IMPORT ITEM. IT IS NOT "IMPORTED" IF KOREAN VESSELS CATCH IT. ROKG APPROVAL OF THE KMIDC CONTRACT IMPLIES THAT A WAIVER WILL BE GRANTED IN THIS CASE.);

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(D) DAVENNY MAY NOT BE ABLE TO PROVIDE THE MINIMUM 130,000 TONS. FROM 30 SMALL FORMER SHRIMP TRAWLERS, SO KMIDC HAS ENCOURAGED DAVENNY TO ENLIST ANY UNEMPLOYED BOATS HE CAN FIND FROM KODIAK SOUTH AND WILL TEACH THEM HOW TO CATCH POLLACK.

5. THE NEFCO KODIAK PLANT IS GEARED TO A NUMBER OF PRODUCTS BUT NOT POLLOCK AND WOULD HAVE TO EXPAND TO HANDLE IT. THE CURRENT US FISHBLOCK PRICE IS .50 TO .55 CENTS PER POUND WHICH, CONVERTED TO METRIC TONS, MEANS THAT KMIDC MUST BUY POLLACK AT \$60 PER TON TO SELL FISHBLOCKS TO THE US. NONE OF THE PRICES IN PARAGRAPH 4 ARE NEAR THAT. IN KMIDC'S JUDGMENT, AT CURRENT RAW FISH PRICES MEFCO'S MARGINAL COSTS MAKE IT IMPOSSIBLE FOR THAT FIRM TO CONSIDER PROCESSING POLLOCK BLOCKS FOR SALE AT LESS THAN \$1.10 PER POUND (JAPAN AT \$1.00 AND KOREA \$.85 CENTS). ALTHOUGH NEFCO CLAIMS TO BE "BUYING", NO FISHERMAN CAN DELIVER POLLOCK AT C.I.F. KODIAK PRICES WHICH WOULD ALLOW NEFCO SELL FOR \$.50 TO .55 CENTS LB. THEREFORE, THE SHRIMP AND OTHER BOATS WILL REMAIN IDLE UNLESS THE \$143 KMIDC CONTRACT IS APPROVED. SHIM DEPARTED FOR ANCHORAGE

AND WASHDC MAY 6 TO CONSULT COUNCIL AND DAVENNY RE COURSE OF
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ACTION TOWARD APPROVAL AT NEXT COUNCIL MEETING, MAY 27, 1977.

6. COUNCIL DECISION TO RECOMMEND DISAPPROVAL OF KMIDC CONTRACT
WAS APPARENTLY BASED ON (1) SOME QUESTIONS ITS LAWYER HAD CONCERN-
ING THE FMCA AND REGULATIONS, (2) DESIRE TO GIVE SHORE BASED
BOTTOM FISH PROCESSING FACILITIES OPPORTUNITIES TO DEVELOP THIS
YEAR, AND (C) THAT APPROVAL WOULD BE PRECEDENTIAL FOR OTHER REQUESTS
FROM OTHER COUNTRIES RE SPECIES SUCH AS CRAB, SHRIMP OR SALMON.

7. EMBASSY COMMENT: WE BELIEVE THAT SHIM'S ANALYSIS AS WELL AS
HIS POSITION VIS-A-VIS THE ROKG IS SUBSTANTIALLY AS REPRESENTED.
THE KEY QUESTION IS, OF COURSE, HOW THE LAW MAY BEST BE SERVED.
THE FCMA PROVIDES SPECIFICALLY FOR THE ENCOURAGEMENT OF ENTRY OF
US FISHERMEN INTO FISHERIES IN WHICH THEY HAVE NOT BEEN ENGAGED,
AND ALSO INCLUDES SHORE BASED FACILITIES. DEPARTMENT SHOULD VERIFY
THE PRICE SITUATION TO DETERMINE WHETHER BOTH OBJECTIVES OR ONLY
ONE CAN BE SERVED. THE ALASKAN FISHERMEN WON'T MOVE INTO POLLOCK
UNLESS THEY HAVE A BUYER, AND SALES TO KMIDC WOULD RETURN THEM
\$18.6 MILLION PER YEAR, BY PAYING TWICE THE EX-VESSEL (AT SEA)
PRICE. AT THE SAME TIME, THE POLLOCK MARKET IN THE US IS BASED
ESSENTIALLY ON A "JUNK FOOD" DEMAND WHICH CAN BE ASSUMED TO BE
RELATIVELY PRICE ELASTIC (FISH STICKS MAY NOT BE LIKE CAVIAR).
IT MAY BE THAT ALASKAN SHORE BASED PLANTS (CRAB, SHRIMP OR SALMON)
CAN NEVER REASONABLY BE EXPECTED TO FIND IT ECONOMICAL TO ENTER
POLLOCK PROCESSING. NOR CAN THE US EXPECT THAT KOREAN IMPORT
PROHIBITION ON FISH WILL BE LIFTED. ALLOWING THE KMIDC CONTRACT
IS OBVIOUSLY A ROKG EXPEDIENT FOR KEEPING KMIDC AFLOAT WHILE
ADDING 130,000 TONS OF POLLOCK TO THE KOREAN QUOTA FOR A TOTAL
OF SLIGHTLY OVER 200,000 TONS, WHICH WE HAVE PREVIOUSLY REPORTED
IS THE KOREAN DOMESTIC DEMAND LEVEL. KMIDC CAN COVER THE FOREIGN
EXCHANGE COSTS OUT OF EARNINGS FROM TUNA AND OYSTER EXPORTS AND
MAKE USE OF THE OTHERWISE UNOCCUPIED YUSHIN HO AS A FLOATING
QUICK FREEZER.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: VOTING, FISHERIES, CONTRACTS, LICENSES
Control Number: n/a
Copy: SINGLE
Sent Date: 10-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SEOUL03828
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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From: SEOUL
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770574/aaaacpp.tel
Line Count: 210
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ab074597-c288-dd11-92da-001cc4696bcc
Office: ACTION OES
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 STATE 86522
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2581220
Secure: OPEN
Status: NATIVE
Subject: POLITICO ECONOMICS OF KOREAN ALASKA POLLOCK PURCHASE VENTURE
TAGS: EFIS, UR, JA, KS, KMIDC, R A DAVENNY & ASSOCIATES INC
To: STATE COM
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ab074597-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009